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Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Proactive investigation of the education grant entitlement

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 54/244 of 23 December 1999, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the proactive investigation of the education grant entitlement.

2. The Secretary-General takes note of the findings of the report. He also notes the potential for fraud in the application of the education grant entitlement or, indeed, of any other entitlement. The Secretary-General shares the view of the Office of Internal Oversight Services that, if an entitlement is based on a declarative model, such as the education grant entitlement, the claimant should bear total responsibility for the veracity of his or her declaration. The Secretary-General welcomes the efforts of the Office of Internal Oversight Services to recommend corrective action to simplify the payment of the entitlement and minimize the risk of commission of violations in this area. He wishes to emphasize, however, that the 16 cases of alleged fraud referred to in the report were detected and reported by staff members. He also notes the comment by the Office of Internal Oversight Services that most claims for the education grant entitlement are likely to be genuine.

* A/55/150.

00-63198 (E) 041000

Report of the Office of Internal Oversight Services on the proactive investigation of the education grant entitlement

Summary

Of the 16 reports of alleged fraud with regard to the education grant received by the Office of Internal Oversight Services between 1995 and 1999, 10 were substantiated, 2 were unsubstantiated and 4 are active ongoing cases. In the 10 substantiated cases, the outcome of the respective investigations was as follows: five staff members were terminated from the Organization; three staff members were the subject of administrative or disciplinary action; and two staff members resigned. For the two unsubstantiated cases, the staff members concerned were fully cleared by the investigation. Examples of the types of fraud identified by these investigations are described in paragraph 11 of the present report.

During 1998, more than 1,300 staff members at United Nations Headquarters (including staff on mission) submitted education grant claims for approximately 3,300 dependants. Total payments for the education grant exceeded US$ 25 million, the average annual payment being approximately US$ 19,000 per staff member. Most of these claims, which the Office of Internal Oversight Services did not examine, are likely to be genuine. The Office has sought to determine the type of weaknesses that allow the identified cases of fraud to occur.

Based on the 16 reports received by the Office of Internal Oversight Services, the high percentage of substantiation of those cases, as well as the high percentage of disciplinary action taken, and the overall high dollar value of the entitlement, coupled with the many audits conducted by the Office and the former Internal Audit Division, the United Nations education grant entitlement was assessed by the Office as an area in which there is the potential for fraud at Headquarters and at offices away from Headquarters within the meaning of paragraph 17 of the Secretary-General's bulletin ST/SGB/273 of 7 September 1994.

During its investigations over the past few years of reports of education grant fraud, the Office of Internal Oversight Services has noted the various means by which some staff members have defrauded or attempted to defraud the Organization in their education grant submissions. The amount lost to the Organization can be substantial; the amount defrauded from the Organization in the cases that the Office has investigated and substantiated averages $26,500 per case but in one case was over $69,000. The Office of Internal Oversight Services has recommended corrective measures to strengthen procedures which would lessen the risk of fraud.

The purpose of the present review is not to create a perception that most claimants are dishonest. Rather, as mentioned above, it is designed to ascertain the weaknesses which allow those seeking personal gain by fraudulent means to succeed.

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I. Introduction

1. The Office of Internal Oversight Services has received in the past four years 16 reports in which staff members were alleged to have presented fraudulent claims for the education grant. These reports were new reports, received by the Office from other staff members who were concerned that the education grant entitlement was being subjected to a risk of fraudulent abuse and who exercised their individual rights pursuant to paragraph 18 of the Secretary-General's bulletin ST/SGB/273 of 7 September 1994. The Office of Internal Oversight Services has investigated the reports and, in the 12 cases in which the investigation process has been completed, has found that the evidence supports a finding of fraud in 10, or 83 per cent, of them. In the 2 cases for which the evidence did not support a finding of fraud, the staff members were fully cleared. In the 10 substantiated cases, five staff members were terminated from the Organization, three were subject to administrative or disciplinary action and two resigned from the Organization. These cases of fraud involve total misappropriations of US$ 265,000 of United Nations funds, with the individual cases ranging from several thousand United States dollars to over US$ 69,000 in one case. In each of the cases, the Organization, upon the recommendation of the Office of Internal Oversight Services, has either recovered or taken steps to recover those funds.

2. As an example, during 1998, approximately 1,300 staff members at United Nations Headquarters (including staff on mission) submitted education grant claims for more than 3,300 dependants. In the same year, total education grant payments exceeded US$ 25 million, the average payment being approximately US$ 19,000 per staff member. Most of the claims are likely to be genuine. Therefore, the purpose of the present review is not to create a perception that most claimants are dishonest. Rather, it is designed to ascertain what systematic weaknesses may be used, by those seeking unjust enrichment by fraudulent means, to succeed.

3. The mandate of the Office of Internal Oversight Services is to focus on assessing the potential within programme areas for fraud and other violations through the analysis of systems of control in high-risk operations as well as offices away from Headquarters, and on the basis of that analysis, to make recommendations for corrective action to minimize the risk of commission of such violations (ST/SGB/273, para. 17). The investigation indicated that the education grant entitlement was an area in which there is a potential for fraud at Headquarters and at offices away from Headquarters.

4. In a proactive review, the selected system, in this case the education grant entitlement, is assessed not only for inherent weaknesses but also for the relative ability of persons to be able to manipulate the system in order to commit the fraud. It is the aim of the proactive review to assess the potential for fraud that the Organization may be exposed to by intentional and/or opportunistic behaviour with personal gain as its goal. A proactive review should not be confused with an audit which examines the internal control system and whether or not a particular control system is operative. A proactive review is designed to focus on fraud or other violations with the idea of sensitizing the Organization to the risk it faces and to recommend to management ways of prevention or early detection.

5. For the present proactive review, the processing of education grant claims was reviewed at United Nations Headquarters and at the United Nations Office at Geneva and at Nairobi. Key personnel from the Office of Human Resources Management, the payroll/accounts payable section from each of the offices and the Field Administration and Logistics Division at Headquarters were interviewed with the aim of understanding the education grant processes and the associated problems and risks.

II. Education grant entitlement

6. According to United Nations Staff Rule 103.20 (b), a staff member who is regarded as an international recruit under rule 104.7 and whose duty station and place of residence are outside his or her home country is entitled to an education grant for each child in full-time attendance at school, university or similar educational institution, provided that the international recruit's appointment or assignment is for a minimum of six months. Education grant entitlements may also be authorized for United Nations locally recruited staff members who are on mission service. Administrative instructions and circulars have been issued by the Administration with the aim of explaining the operation of the Staff Rules with respect to the education grant entitlement.[1]

7. Claims for payment of the education grant are to be submitted to the Office of Human Resources Management or the relevant personnel section on form P.45 (hereinafter referred to as the request for payment) promptly upon completion of the school year. The claim must be accompanied by written evidence of the child's attendance, education costs and specific amounts paid by the staff member. Such evidence normally is submitted on a P.41 form (hereinafter referred to as the certificate form), which should be certified by the school. Both forms are submitted by the staff member to the Organization for processing.

8. As part of the education grant entitlement, a staff member who serves in a country whose language is different from his or her mother tongue or whose child attends a local school in which the instruction is given in a different language may be allowed to submit the costs of tuition in the mother tongue. According to administrative instruction ST/AI/1999/4 of 19 May 1999 and information circular ST/IC/1999/51 and Corr.1 of 13 July 1999, private tuition must be given by a qualified teacher who is not a member of the staff member's family. Information circular ST/IC/1999/51 and Corr.1 stipulates that a request for reimbursement for tuition must be accompanied by a certificate for tuition in the mother tongue and a certified receipt from the institution or tutor for the amount paid by the staff member. In addition, original cancelled cheques or copies of original cheques accompanied by bank statements are required to be submitted to the Organization to verify the payments made to the tutor or to the educational institution. The rule does not provide for the submission of any other form of receipt or other written confirmation of cash payments.

9. Staff members may claim a special education grant when: (a) their child is unable, by reason of physical or mental disability, to attend a regular educational institution and therefore requires special teaching or training, on a full or part-time basis; or (b) the child, while attending a regular educational institution, requires special teaching or training to assist him or her in overcoming the disability. In accordance with administrative instruction ST/AI/1999/4, claims for the special education grant shall be submitted in writing and supported by medical evidence.

10. From the legal outline provided in the above paragraphs, it is clear that the education grant system is based on a declarative model and, as such, relies on the claimant personally to guarantee the truthfulness of the claim. It therefore assumes total honesty on the part of the claimant and places on the claimant total responsibility for the truth and contents of his or her declaration. For example, this assumption is supported by United Nations Administrative Tribunal Judgement No. 850, dated 26 November 1997, which states that it is incumbent upon the staff member who obtains allowances or benefits from the Administration, on the basis of his or her certification, to ensure that the proper information is supplied. Thus, the responsibilities of any claimant for an education grant go beyond the simple compliance of furnishing certification and proof of expense.

III. Findings

A. Examples of fraud

11. From the education grant fraud cases received, the Office of Internal Oversight Services identified several means by which claimants have defrauded the Organization in claims for education grants:

(a) The claimant submits to the Organization fraudulent certificate forms which he or she has completed, instead of the educational institution as required, and which contain falsified amounts, signatures of representatives of the educational institution which the latter have identified as forged and/or fake school stamps;

(b) Since the claimant receives the completed certificates directly from the institution prior to submission to the Organization for processing, he or she has the opportunity to change the information provided by the educational institution by changing data or including additional amounts in order to increase the amount received. This is the most prevalent type of fraud among the cases investigated by the Office of Internal Oversight Services;

(c) The claimant presents a claim for an educational institution that the child did not attend;

(With respect to the above-mentioned three types of fraud, detection by the Organization could be carried out directly by confirming the information on the certificate forms with the educational institutions. Since it would not be possible to carry out such an exercise for all education grant claims submitted, given

resource and time constraints, a random sample could be selected periodically for verification directly with the educational institution concerned.)

(d) The claimant enlists the assistance of the educational institution to provide false information on the certificate form which is certified by the educational institution;

(In this type of case, detection is difficult since staff of the educational institution are also involved. Academic and financial records to prove attendance of the student and tuition payments could be required of the staff member and the educational institution.)

(e) The claimant solicits education grant entitlements for dependent children who are not legally his or her dependants;

(In this type of case, circumstances can be determined by requiring the education grant claimants to provide to the Organization all necessary legal documents, for example, birth certificates, adoption decrees or court orders of custody.)

(f) The claimant submits a claim for the full entitlement instead of a prorated grant amount even though the claimant is aware that his or her dependant did not attend school full-time or did not attend for the entire school year;

(In this type of case, the Organization can detect the fraud by independently confirming the student's attendance with the educational institution.)

(g) The student receives scholarship or grant money (thereby reducing the entitlement amount) which is not reported on the certificate form;

(In this type of case, confirmation from the educational institution as to the scholarship or grant is required.)

(h) For claims for tuition in the mother tongue, the claimant submits a request for reimbursement for private lessons that his or her child did not receive.

(In this type of fraud, detection is difficult because the fraud is done with the assistance of the tutor who certifies that instruction was given. In such cases, the purported tutor has endorsed cheques made payable to him or her in order to assist the education grant claimant with his or her fraud. Requests for a programme syliabus and other requirements to prove that instruction was given would assist in tracking such cases.)

B. Additional factors

1. Completion of the certificate form

12. The Office of Internal Oversight Services has noted that some schools refuse to complete the certificate form because they find it cumbersome and time-consuming to prepare. It is apparent on many of the forms examined by the Office that they were completed by the staff members themselves, in contravention of the instructions clearly indicated on the form that it be completed only by the educational institutions. Often the educational institution will agree only to provide certification of the information by official signature and stamp; however, the Office of Internal Oversight Services has found instances in which the educational institution did not verify the information but simply stamped and certified the form which contained erroneous information. While there are cases in which the education grant claimant is obligated to prepare the form because the educational institution will not do so, such practices could prompt the claimant to include erroneous information, either intentionally or unintentionally.

13. This problem could be solved by implementation of the provisions of information circular ST/IC/1999/51 and Corr.1. In those cases in which it is not possible to submit a certificate form, for example, when the school will not do so, staff members should submit a certificate of attendance indicating the exact dates of attendance, together with itemized and paid school bills, and other substantiating information. These documents must be certified by a responsible official of the educational institution.

2. Admissible and non-admissible costs

14. The Office of Internal Oversight Services identified another weakness regarding the education grant entitlement. The educational institution is required to provide a description of additional education costs, aside from tuition. These costs are analysed by staff processing the claim to determine whether the costs are admissible or not. The general definition of admissible costs is that of costs directly related to the regular school programme or curriculum, however, the Office has noted that such a definition is subject to individual interpretation. During interviews with the investigators, staff of the Office of Human Resources Management complained of the difficulties encountered in deciphering admissible and non-

admissible expenses. In this regard, they made the following observations:

(a) Processors have a list of admissible expenses but the list is not complete; items are presented as charges which are not on the list, and the determination needs to be made as to whether or not to admit the charges;

(b) Schools do not have standard definitions for the same costs;

(c) What is considered admissible in one duty station is considered non-admissible in another.

15. With the proposed delegation of authority from a centralized office in the Office of Human Resources Management to individual executive or administrative offices, these inconsistencies may increase in number unless standardized procedures are implemented. Experience since 1992 with the delegation of authority in such matters directly from the Office of Human Resources Management to personnel sections of established field missions demonstrates that this is a legitimate concern. Furthermore, such inconsistencies may be a cause for appeals to the Joint Appeals Board by staff members who defend their claims against a perceived discretionary administrative decision based on personal interpretation by the processor of the claim.

3. Mother tongue entitlement

16. The Office of Internal Oversight Services has not found any rule or instruction which defines an instructor in the mother tongue. The practice has, however, developed whereby the basic required qualification for a tutor in the mother tongue is a university degree, regardless of the specialization. It is not a requirement for the instructor to have a degree in languages or education. The Office noted private instructors in the mother tongue who had degrees in engineering, business and architecture. While such individuals may be highly educated, there is no indication that they are sufficiently proficient in the language or as a teacher to be able to provide quality language instruction (see para. 22 below).

17. Investigators noted that the Personnel Section at the United Nations Office at Nairobi were not well versed in the requirements of the administrative instruction which governs education grants. As a result, the requirements stipulated for tuition in the mother tongue were not enforced. Such lapses in enforcement included processing the certificate forms in contravention of the instruction's requirements. The claims were processed and payments made even though staff members did not present original cancelled cheques accompanied by bank statements to verify the payments made to the tutors or to the educational institutions but instead presented receipts for cash payments. Information circular ST/IC/1999/51 and Corr.1 requires that original cancelled cheques or copies of original cheques accompanied by bank statements to verify the payments made to the tutor or to the educational institution be presented to the Organization in order to request reimbursement for tuition in the mother tongue. Furthermore, the information circular notes that receipts or other written confirmation of cash payments are not acceptable as proof of payment.

The management of the United Nations Office at Nairobi responded that it is difficult for staff at Nairobi to submit original cancelled cheques or even copies of original cheques from banks since Kenyan banks do not normally return cancelled cheques, and that much business in Kenya is done on a cash basis. *

4. Special education grant for disabled children

18. The Office of Internal Oversight Services, in its review of special education grant claims, was presented with instances in which the disability claimed would not appear to preclude a child from attending a regular school. Personnel from the Office of Human Resources Management indicated that such instances are difficult to check since such claims are certified by medical doctors and that medical services divisions rarely question such certifications. Consequently, the claims are processed. This has also resulted in claims for special education grants being submitted for children who did not attend a specialized institution, or receive special education at a regular institution. While most of these claims may be genuine, the ability of processors to verify their validity is limited. Therefore, if a risk exists in this area of the education grant system, it can only be reduced by initiating an unambiguous policy.

* The comments of management appear in italics throughout the report.

IV. Conclusions and recommendations

19. During discussions with personnel processing officers at the three duty stations concerned, the Office of Internal Oversight Services was informed that the officers do not see their role as policing education grant entitlements. Rather, they see their role as providing client service to other staff members. Consequently, contact with educational institutions may not always be made to verify the information. Contact is, however, made with the educational institution when there is any doubt about the claim. This is in contrast to the practices in place in the Field Administration and Logistics Division, Department of Peacekeeping Operations, in which the staff member responsible for processing the claims routinely contacts the educational institutions to verify information on questionable claims. Such scrutiny is both a proactive deterrence control against fraud, as well as a reactive detection control when fraud does occur. The education grant claims processed by the Field Administration and Logistics Division are not administered by the Office of Human Resources Management, since the Division has been delegated authority since 1994 to process claims for its staff. While the Office of Internal Oversight Services does not wish to suggest that the Office of Human Resources Management change its client servicing policy, and noting that fraudulent claims are not necessarily obvious, processing claims with a discerning eye may assist the Organization in distributing education grant funding to staff members who report the actual expenses incurred by them and request only that to which they are entitled. Moreover, in the long term, the education grant entitlement may suffer the criticism of being an easily defrauded entitlement if it does not receive some measure of due diligence at the client servicing front line.

20. In its current form, the administration of the education grant benefit is cumbersome and, therefore, prone to error. Because it is cumbersome and, to some degree, subject to some discretionary processing at the front line, the entitlement opens itself up to opportunistic behaviour. It is for this reason that in the same way in which the lump-sum option was established for home leave travel several years ago so as to facilitate the processing of the entitlement and save the Organization administrative costs, the Office of Internal Oversight Services recommends that serious consideration be given to the suggestion that the education grant entitlement be provided on a lump-sum basis for each country in which a school is located (IV99/025/01).* This option would not only save the Organization financial resources by reducing the current administrative costs involved in the processing of the grants but it would also allow staff more time to spot check for fraud. By streamlining the processing of claims:

(a) The staff of the Office of Human Resources Management would no longer perform a form of accounting to calculate the entitlements for approval by the officers of that Office. Instead, they would be required to verify school attendance and tuition costs paid. This would also eliminate the risk of fraud in claims for such additional costs as books and transportation;

(b) Officers of the Office of Human Resources Management would no longer have to verify the entitlements processed by the staff of the Office. Instead, they would only need to verify attendance and approve the lump-sum payment;

(c) The cumbersome certificate form could be superseded by a simple form that would verify school attendance and tuition, which the educational institutions may be more willing to complete. In addition, the analysis of the current form is a time-consuming process since it often requires contacting the educational institution to obtain additional information;

(d) As a result of the above-mentioned suggested revisions, the risk of fraud would be reduced considerably. As long as the staff member is required to demonstrate, and the processing staff are required to verify, that a child is in full attendance at an educational institution that charges tuition, the staff member would be entitled to an education grant lump-sum payment;

(e) With this option, staff of the Office of Human Resources Management or other processing officers would only have to randomly spot check claims for full verification of all information with the educational institutions to reduce the risk of fraud.

21. If the lump-sum option is not preferred, the Office of Internal Oversight Services recommends that the processing of the education grant be centralized within one office at each of the duty stations

* An internal code used by the Office of Internal Oversight Services.

(IV99/025/02). While there is at present within the Organization the plan to decentralize the functions of the Office of Human Resources Management, the Office of Internal Oversight Services believes that such practices would be counterproductive to the current practices of processing education grants. By centralizing the process:

(a) Economies of scale would be realized since the staff working with the entitlement would be fully versed in its complicated and cumbersome requirements;

(b) A certain level of organizational memory would be generated as to the normal school tuition fees and charges in various countries, thereby enabling the staff processing the claims rapidly to detect falsely inflated claims. Experienced staff would be able to detect tuition amounts which are higher than those for other similar schools, or school years which do not correspond to the normal school year in a particular country;

(c) The assessment by processing staff of admissible charges would be less subjective and of greater uniformity in determining allowable charges, thereby making it more equitable among staff members of different offices.

22. The Office of Internal Oversight Services notes that the policy with respect to tuition in the mother tongue states that such instruction must be provided to the child by a qualified teacher. In this regard, the policy is ambiguous since it also speaks of a tutor and educational institution. Consequently, it is recommended that the requirement for the instructor's qualification be strengthened and staff members required to produce proof of the private tuition instructor's competence (IV99/025/03).

23. With regard to the special education grant for children with disabilities, the Office of Internal Oversight Services recommends that consideration be given to examining the rule which permits staff members to receive a special education grant for a disabled child when the child attends a regular educational institution and does not receive specialized instruction for his or her disability (IV99/025/04).

V. Management comments

24. *Management comments by the Field Administration and Logistics Division of the Department of Peacekeeping Operations, the United Nations Office at Geneva and the United Nations Office at Nairobi on the present report have been favourable and the recommendations of the Office of Internal Oversight Services have been accepted. The Field Administration and Logistics Division responded that its experience with the entitlement bears out fully all of the conclusions set out in the present report and that it would welcome the implementation of the recommendations contained therein. The Division noted that it sees value in, and would encourage the Organization to adopt, a further streamlined lump-sum approach which would correlate with the location of the schools and the level of schooling (i.e., the lump-sum level would be indexed to indicative costs set per location and level of schooling). It added that it would strongly support the recommendation to return to a centralized system for processing education grants and sees great merit in standardizing the process of review and certification.*

25. *The management of the United Nations Office at Geneva concurred with the conclusion of the Office of Internal Oversight Services with regard to a centralized area for processing the education grant claims since it would allow more effective processing, as well as uniformity in the interpretation and certification of entitlements and payments. It also concurred with the recommendation of the Office of Internal Oversight Services on a lump-sum entitlement.*

26. *With regard to tuition in the mother tongue, the management of the United Nations Office at Geneva suggested that the Organization re-evaluate the entitlement for reimbursement since the original purpose has been diluted over the years.*

27. *The management of the United Nations Office at Nairobi noted that the provisions of the administrative instruction on the education grant have been the most complicated to comprehend and have caused much confusion and difficulties insofar as their implementation and administration. It welcomed the recommendation of the Office of Internal Oversight Services on the lump-sum option since it would simplify the work of the administrative staff responsible for its implementation.*

28. *The Department of Management agrees that serious consideration could be given to the payment of the education grant entitlement on a lump-sum basis, although there are differences with home leave travel since the administrative savings that resulted from a change in the system for processing home leave travel are actually due to the willingness of staff members to take a lump-sum entitlement of 70 per cent of their entitlement. The Department is in agreement that simplifying the process of managing the education grant entitlement will serve to add efficiency to the processing of grants, while eliminating some risk factors. A thorough analysis and review is needed before new procedures are put in place and the focus should be on exploring options to render not only the administration of the entitlement simpler and more efficient but also to reduce to the lowest possible degree the risk of fraudulent claims. The Department also points out that the introduction of the education grant module of the Integrated Management Information System (IMIS) has provided a means by which processors of claims can simply enter data into the system and have the system determine the appropriate entitlement. While this module does not eliminate the need for distinguishing between admissible and inadmissible costs, it provides: (a) processing controls to ensure the uniform application of rules; (b) eligibility validations; (c) a means of ensuring the accurate and consistent calculation of entitlements; and (d) a means for capturing statistical information. As such, education claims can only be generated for children who are classified as dependants in the staff member's personnel data.*

(*Signed*) Dileep **Nair**
Under-Secretary-General
for Internal Oversight Services

Notes

[1] Administrative instruction ST/AI/1999/4 of 19 May 1999 (and ST/AI/181/Rev.10 and Corr.1 and Amend.1 and 2 of 26 June 1995, 30 January 1996 and 4 March 1997, which it supersedes) explains the requirements of Staff Rule 103.20. Information circular ST/IC/1999/51 and Corr.1 of 13 July 1999 informs staff members who are eligible to receive education grants or special education grants for disabled children under ST/AI/1999/4 of the procedures application to the submission and processing of their claims. (Administrative instruction ST/AI/181/Rev.10 is referred to since it was in force during the review.)

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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Proactive investigation of the education grant entitlement

Note by the Secretary-General

Corrigendum

Paragraph 28

The first sentence *should read*

The Department of Management agrees that serious consideration could be given to the payment of the education grant entitlement on a lump-sum basis, although there are differences with home leave travel since the administrative savings that resulted from a change in the system for processing home leave travel are actually due to the willingness of staff members to take a lump-sum entitlement of 75 per cent of their entitlement.

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Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Investigation into the misdirection of contributions made by Member States to the United Nations Environment Programme Trust Fund account

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 54/244 of 23 December 1999, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the investigation into the misdirection of contributions made by Member States to the United Nations Environment Programme Trust Fund account.

2. The Secretary-General takes note of its findings and concurs with its recommendations.

* A/55/150

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Investigation into the misdirection of contributions made by Member States to the United Nations Environment Programme Trust Fund account

Summary

Between 12 February 1998 and 25 October 1999, 13 wire transfers of funds intended as contributions to the United Nations Environment Programme (UNEP) Trust Fund account at the Chase Manhattan Bank (hereinafter referred to as Chase), totalling US$ 701,998.94, were made by nine Member States (i.e., Belgium, Dominica, Finland, France, Italy, Namibia, Saint Kitts and Nevis, Turkey and Uruguay). Instead, the funds were deposited in error into the account of another account holder at Chase, Susan Rouse-Madakor. The account number of the UNEP Trust Fund at Chase is *001-1*-XXXXXX, while the account number of Ms. Rouse-Madakor is *001*-XXXXXX, the same but for the one-digit difference. When requested by Chase to return the funds which were clearly intended for UNEP, Ms. Rouse-Madakor refused and has since been charged with fraud by United States authorities. After discussions with the Office of Internal Oversight Services, the United Nations Treasurer and the Office of Legal Affairs, Chase, as an accommodation to the United Nations, has restored the full amount of US$ 701,998.94 to UNEP, the equivalent of both the US$ 470,121.57 being held by Chase pending legal action and the US$ 231,877.37 spent by Ms. Rouse-Madakor.

The Investigations Section of the Office of Internal Oversight Services conducted an investigation upon receipt of a report by the United Nations Treasurer in November 1999 concerning several deposits misdirected into Ms. Rouse-Madakor's account, which she had refused to return. In addition to interviewing United Nations staff and Chase personnel, the Investigations Section analysed the documentation provided to the Organization by six of the concerned Member States, Chase and the United Nations Office at Nairobi which administers the UNEP Trust Fund.

The 13 contributions were misdeposited for two key reasons: (a) most of the funds transfer instructions did not include the fourth digit "1" in the UNEP Trust Fund account number although the United Nations Office at Nairobi had provided the correct account number to the Member States; and (b) the system used by Chase provides for wire transfer deposits to be made by account number only, without reference to the name of the intended beneficiary. Since the 001-XXXXXX account number was an active account at Chase, the transfers were automatically credited by Chase to the Rouse-Madakor account instead of to that of UNEP, the intended beneficiary of the transfers. It must be noted that, during the same time period, 88 contributions totalling US$ 22,545,948 were correctly deposited to the UNEP Trust Fund account by wire transfers initiated by the above-mentioned nine Member States, even though some of the transfer instructions were to the incorrect account number.

In addition, the Investigations Section noted that the United Nations Office at Nairobi did not act in a prompt and efficient manner in identifying and addressing the misdirected contributions, thereby allowing additional deposits to be credited to the Rouse-Madakor account. For example, the Government of Italy was the first to notify

the United Nations Office at Nairobi that its contribution, which it had reported in March 1998, had not been credited as at September 1998. It took the United Nations Office at Nairobi several months to provide all of the required tracking information to Chase. In addition, Chase was not responsive to repeated requests from the United Nations Office at Nairobi and it took Chase an additional six months from the initial notification by the Office to identify the misdeposits.

The Investigations Section found no evidence of wrongdoing on the part of United Nations staff members. The events recounted here demonstrate that, while mistakes were made, the only wrongdoing was on the part of Ms. Rouse-Madakor. It also demonstrates the difficulties inherent in the "account number only" system used by Chase. Several recommendations have been made with the aim of improving the current process for the payment of contributions and the communications between the United Nations Office at Nairobi and Member States, and between that Office and Chase. *Both the United Nations Office at Nairobi and the Department of Management have accepted the report's findings and recommendations. The United Nations Office at Nairobi has agreed to notify the Member States of its efforts to achieve full compliance with the recommendations. In September 2000, the Office of Internal Oversight Services will evaluate the compliance of the United Nations Office at Nairobi and advise Member States accordingly.*•

• The response of the United Nations Office at Nairobi and the Department of Management appear in italics.

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I. Introduction

1. Between 12 February 1998 and 25 October 1999, 13 separate contributions, totalling US$ 701,998.94, from nine Member States (i.e., Belgium, Dominica, Finland, France, Italy, Namibia, Saint Kitts and Nevis, Turkey and Uruguay) and intended for the United Nations Environment Programme (UNEP) Trust Fund account at Chase Manhattan Bank (hereinafter referred to as Chase) were deposited in error to the account of another account holder at Chase, Susan Rouse-Madakor. The number of the UNEP Trust Fund account at Chase is *001-1*-XXXXXX, while Ms. Rouse-Madakor's account number is the same but for the fourth digit "1", *001*-XXXXXX, a one-digit difference. During the same period, 88 contributions totalling US$ 22,545,948 were correctly deposited to the UNEP Trust Fund account by wire transfers initiated by the same nine Member States.

2. All invoices and receipts for UNEP, including those for the UNEP conventions and more than 90 trust funds, originate in the United Nations Office at Nairobi. All trust fund contributions, with the exception of the Multilateral Fund for the Implementation of the Montreal Protocol and counterpart contributions, are received in the same UNEP account at Chase. This account was opened in August 1996 by the United Nations after a competitive bid process in order to facilitate the deposit of donations by Member States to UNEP.

3. The Investigations Section of the Office of Internal Oversight Services, upon receipt of a report by the United Nations Treasurer in November 1999 concerning the deposits misdirected into the account of Ms. Rouse-Madakor, conducted an investigation. In the course of its investigation, the Section examined documents provided by six of the Member States concerned, by Chase and by the United Nations Office at Nairobi which administers the UNEP Trust Fund account. In addition, investigators of the Section interviewed individuals at the United Nations Office at Nairobi and UNEP. Chase voluntarily agreed to make staff available for interview and provide information. The Investigations Section was further assisted by representatives of the concerned Member States.

II. Funds transfer

4. Contributions to the UNEP trust funds are made by electronic funds transfer for which the contributing Member State, through its remitting bank, provides the following information: the account number of the beneficiary (in the present case, that of the UNEP Trust Fund account at Chase); the name of the beneficiary (i.e., UNEP Trust Fund); the amount; the currency of the donation; the name and address of the beneficiary's bank (i.e., Chase); information on the intermediary bank for routing purposes (i.e., if needed); and miscellaneous information related to the purpose of the funds transfer. The remitting bank would send the beneficiary's bank, Chase, an electronic instruction to debit its account and provide Chase with the above-mentioned information. Chase would then debit the remitter's account and credit the UNEP Trust Fund account.

5. In order to understand how the contributions were misdirected into the Rouse-Madakor account, the United Nations requested the Member States concerned to provide their available documentation relating to the instructions given to their respective remitting banks. Six Member States (Belgium, Dominica, Finland, France, Italy and Turkey) responded to the request and provided documents to the United Nations Treasurer which were made available to the Investigations Section for the present inquiry.

6. The documents provided demonstrate that the remitting banks for Dominica, France, Finland, Italy and Turkey instructed Chase to credit account number *001*-XXXXXX at Chase instead of *001-1*-XXXXXX. In the case of the three contributions from Belgium, the remitting bank had instructed Chase to credit account number *000-1*-XXXXXX.

7. The documentary evidence provided by Dominica reveals that the Government had provided the correct account number to its remitting bank. It was this bank, the Eastern Caribbean Central Bank on Saint Kitts, which had provided the account number, *001*-XXXXXX to their correspondent bank, The Federal Reserve Bank of New York, to transfer the funds to Chase.

8. The Investigations Section obtained documents which had been previously provided to the United Nations Office at Nairobi by Uruguay concerning its misdirected contribution, and these also reveal that the

remitting bank had provided Chase with the *001*-XXXXXX account number instead of account number *001-1*-XXXXXX.

9. During discussions with representatives from several of the Member States concerned, the Investigations Section was informed that they use the invoices of the United Nations Office at Nairobi for outstanding contributions as the source document for initiating their internal processes for payment. The Section obtained and examined copies of a large number of those invoices and found that the correct account number, that is, *001-1*-XXXXXX, was on all of them. The Section also reviewed several internal documents of Member States, such as the Royal Order signed by the King of Belgium, which authorized the contributions to the UNEP Trust Fund. The correct account number, *001-1*-XXXXXX was also on those documents.

10. In the course of its investigation, the Investigations Section did not locate, and was not provided with, any evidence, either verbal or written, that the United Nations Office at Nairobi or another office of the Organization had provided the incorrect account number. It should be noted that, for each of the 13 misdirected contributions, the intended beneficiary was always clearly stated on the transfer instructions to Chase to be the UNEP Trust Fund. As discussed below, however Chase asserts that it is required to process the wire transfer based only on the account number and not the name of the beneficiary.

III. Findings

11. Based on the information provided by the Member States and Chase, as well as the documentation available in the files at the United Nations Office at Nairobi and UNEP, the Investigations Section has compiled the following information relating to the misdirected contributions.

A. Government of Italy advises the United Nations Office at Nairobi

12. The first alert that there was a problem came from the Italian Government. In a letter dated 13 March 1998, the Italian Ministry of the Environment informed the Executive Secretary of the Ozone Secretariat that the Italian Government's 1998 contribution of US$ 191,671 for the Montreal Protocol had been paid. In response to that letter, the Executive Secretary, in a letter dated 5 May 1998, thanked the Government for its contribution and added that the Treasurer would send an official receipt in due course. However, the United Nations Office at Nairobi, which was the office responsible for the recording of deposits, had not received the report of this deposit from Chase. Thus, by a letter dated 24 July 1998, the United Nations Office at Nairobi notified the Italian Embassy in Nairobi that the Government's 1998 contribution was still outstanding.

13. In response to the notification sent by the United Nations Office at Nairobi, the First Secretary of the Italian Embassy in Nairobi advised, by a letter dated 10 September 1998 addressed to the Officer-in-Charge, Budget and Funds Management Service, that the US$ 191,671 contribution from the Italian Government had been made to account number *001*-XXXXXX, that is, the account number at Chase held by Ms. Rouse-Madakor. In a subsequent response to a request on 15 October 1998 for additional information from the United Nations Office at Nairobi, the First Secretary, by a letter dated 27 October 1998, provided the United Nations Office at Nairobi with the details of the deposit, reiterating that the deposit had been made to account number *001*-XXXXXX. The Officer-in-Charge of the Budget and Funds Management Service responded to the First Secretary on 4 November 1998, stating that an exhaustive search of the *001-1*-XXXXXX account had not revealed the deposit. A careful reading by the staff of the Service of either or both letters from the First Secretary of the Italian Embassy would have alerted the United Nations Office at Nairobi to the reference to an account number which was different from the UNEP account number.

14. Following subsequent communication between the United Nations Office at Nairobi and the Italian Embassy, in which the Embassy forwarded a copy of the deposit instructions from the Ufficio Italiano dei Cambi (Italian Exchange Bank), the Contributions Chief of the Budget and Funds Management Service, in a memorandum dated 16 February 1999, instructed the Chief Cashier, Financial Resources Management Service, to request the assistance of Chase in tracing the Italian contribution. The Chief Cashier did so on 17 February 1999 by means of a fax sent to Chase. The Bank has stated that it responded on 19 February 1999, also by means of a fax, and advised that a review of the

UNEP Trust Fund account had not revealed the deposit. Finance staff members at the United Nations Office at Nairobi report, however, that they did not receive the fax from Chase until 22 April 1999, when the United Nations Office at Nairobi requested Chase to fax a response. Chase has been unable to locate confirmation that the fax of 19 February to the Office was successfully transmitted. Chase informed the Investigations Unit of the Office of Internal Oversight Services that, in March 1999, Chase personnel had spoken with staff of the Financial Resources Management Service at Nairobi, requesting information on the remitting bank for the funds transfer from the Italian Ministry of the Environment. Chase notes that at that time, the staff at Nairobi did not indicate that they had not received the reply from Chase. The United Nations Office at Nairobi has asserted to the Investigations Service that the Chief Cashier made follow-up telephone calls to Chase on 24 February, and 8 and 18 March 1999, during which he requested that document.

15. Following the receipt of the Chase transmittal of 22 April 1999, the United Nations Office at Nairobi communicated to Chase, in a fax dated 8 June 1999, their dissatisfaction with the response that Chase had provided. The Chief of the Budget and Funds Management Service informed Chase that the United Nations Office at Nairobi required the assistance of Chase in locating funds which had been transferred by donors and sought more detailed information than that contained in the response by Chase in its fax of 19 February 1999, namely, that the amount was not in the account. The Chief indicated that he needed to be able to inform Member States of the reasons why a particular transfer was not received. He also indicated that his office had provided Chase with details of the transfer and that they were interested in knowing why the transfer had not been received.

16. The documents provided by the Budget and Funds Management Service to Chase contained some information on the transfer. One was the instruction to purchase United States dollars for the contribution, but this document provided no deposit instructions. The other appears to be the transfer instructions from the Italian Ministry of the Environment to the Ufficio Italiano dei Cambi. The copy of this document held by the United Nations Office at Nairobi is of poor quality and barely legible, and the deposit instructions that may be on this document could not be read.

17. The fax sent by the United Nations Office at Nairobi on 8 June 1999 did not, however, elicit a response from Chase until 7 September 1999. Chase had delayed responding, despite three written reminders from the Office, on 14 July, 29 July and 17 August 1999. Chase admitted to the Investigations Service that it had received the fax dated 8 June 1999 but stated that it had no record of having received the three reminder faxes. The Investigations Service provided Chase with three fax transmission confirmations: one for the 14 July fax and two for the 17 August fax which had been sent twice to Chase. While Chase indicated that it had no record of having received the fax dated 29 July 1999, it did admit that it received on 30 July 1999 a copy of the fax dated 29 July 1999 from the United Nations Treasurer who had forwarded a copy to them. Chase has not, however, provided an explanation as to why it did not respond to the fax. Furthermore, Chase did not provide an explanation as to why it took almost three months to respond to the fax dated 8 June 1999 from the United Nations Office at Nairobi.

18. Because the United Nations Office at Nairobi was continuing to have difficulty in obtaining the assistance of Chase in tracing the missing deposits from Italy and from Uruguay (see sect. B below), the United Nations Office at Nairobi contacted the United Nations Treasurer who advised that banking protocol required investigations of wire transfers to begin with the remitting bank. When the Chief of the Financial Resources Management Service was asked by the Investigations Service why the Italian Government had not been contacted to request that the investigation be initiated by its remitting bank, he responded that, since contact with donors was only through the Budget and Funds Management Service, the Financial Resources Management Service did not contact the Italian bank or ask the Italian Government to contact its bank at any time.

19. In his response dated 7 September to the fax dated 8 June 1999 from the Chief of the Budget and Funds Management Service, the Account Officer of Chase told the United Nations Office at Nairobi to contact the Member State and request the name of the financial institution that had initiated the funds transfer, the date of the transfer and the relevant reference number. He added that this had been previously communicated verbally to the Chief Cashier in February 1999 but, as at 7 September 1999, Chase

had not received the requisite information. When asked by investigators what kind of instructions he had received from Chase in February 1999, the Chief Cashier informed them that he did not recall being told by Chase to provide the information. Chase did not make this request in writing until September 1999 and there is no written evidence that the verbal communication of February transpired. If this were critical for Chase to be able to track the apparently lost deposit, Chase should have communicated it in writing to the Chief Cashier or asked the United Nations Treasurer to do so.

20. Nonetheless, the Chief of the Budget and Funds Management Service advised the Permanent Mission of Italy to UNEP on 4 August 1999 that, in order to resolve the issue, additional information was required from the bank initiating the payment on its exact instructions as well as its confirmation of the transfer of funds.

21. Through its Permanent Mission, the Italian Government was finally told what was needed to trace the contribution, and it contacted its bank, Ufficio Italiano dei Cambi, which, on 10 September 1999, provided the required information directly to Chase. By that time, it was exactly one year from the day when the Government of Italy had first raised the alert. At this point, Chase finally identified that the transaction had been credited to the Rouse-Madakor account instead of the UNEP Trust Fund account. The deposit had been automatically credited to the Rouse-Madakor account, based only on the account number cited by the remitting bank, even though the account name provided by Ufficio Italiano dei Cambi was clearly stated to be the UNEP Trust Fund which did not match the name on the Chase account receiving the deposit. The Ufficio Italiano dei Cambi contested the actions of Chase by responding that, since the name on the account to which the deposit had been credited was different from the beneficiary that it had specified (i.e., the UNEP Trust Fund), Chase should not have made the deposit to the account of Ms. Rouse-Madakor.

22. Chase then contacted Ms. Rouse-Madakor advising her of the erroneous credit to her account and requesting authorization to debit her account. Ms. Rouse-Madakor refused.

23. Despite the extensive correspondence concerning the misdirection of the Italian contribution, on 14 December 1999, the Budget and Funds Management Service sent the Italian Government a follow-up letter and an invoice for its outstanding 1998 contribution of US$ 191,671. When the Service was asked by the investigators why this had been done, its Chief responded that the outstanding notices were sent automatically. Further, he said that, technically, the Italian contribution was still considered to be outstanding when the reminder and the invoice were sent to the Italian Government. Nevertheless, the reminder notice should not have been sent.

B. Government of Uruguay advises the United Nations Office at Nairobi

24. Other Member States also contacted the United Nations Office at Nairobi concerning their contributions. In response to an invoice from the Office for outstanding contributions due, the Permanent Mission of Uruguay in Geneva sent a fax dated 29 January 1999 to the Chief of the Budget and Funds Management Service at Nairobi, requesting updated information on the outstanding contributions due from Uruguay, as well as receipts for payments made. According to the Uruguayan registry, US$ 6,802 had been paid on 10 February 1998. This amount represented the Government's 1995 and 1996 contributions to the Convention on Biological Diversity.

25. On 23 February 1999, the Permanent Mission of Uruguay in Geneva transmitted, by means of a fax to the Chief of the Budget and Funds Management Service, a copy of the order of payment which cited account number *001*-XXXXXX. A handwritten note by a staff member of the United Nations Office at Nairobi on the fax states incorrectly "Uruguay to BY $6,802 10 Feb 98 a/c *001-1*-XXXXXX". Furthermore, as happened when they received a similar communication from the Permanent Mission of Italy in Nairobi, staff at the United Nations Office at Nairobi did not notice that the account identified on the fax from the Mission had a slightly different account number. In a memorandum dated 24 March 1999, the Chief of Contributions, Budget and Funds Management Service, requested the Chief Cashier, Financial Resources Management Service, to seek the assistance of Chase in tracing the Uruguayan deposit.

26. In response to the above-mentioned request, the Chief Cashier, Financial Resources Management Service, sent to Chase on 11 June 1999 a fax in which

he requested advice as to why a Belgian remittance of US$ 39,938 (see sect. C below) and the Uruguayan transfer of US$ 6,802 had not been credited to the UNEP Trust Fund account. Regarding the Uruguayan transfer, the Chief of the Financial Resources Management Service, noted that the Swift code printout reflected that the funds were sent to Chase for credit to account number *001*-XXXXXX, which was erroneous owing to the omission of the fourth digit "1". By this time, the United Nations Office at Nairobi had identified and informed Chase of the cause of the misdirection of the Uruguayan deposit. Chase was requested to investigate and advise the Financial Resources Management Service accordingly; however, the Office did not receive a response from Chase to this request. In a letter dated 14 March 2000 to the Investigations Service, Chase reported that it had not received the fax dated 11 June 1999. The United Nations Office at Nairobi has, however, provided to the Investigations Service a copy of the fax transmission confirmation report which indicates that the fax was successfully transmitted on 11 June 1999.

C. Misdirection of contributions of other Member States

27. The United Nations Office at Nairobi had received notification of missing deposits from the Permanent Representative of Belgium to UNEP. On 18 February 1999, the Chief of Contributions, Budget and Funds Management Service, was advised of a missing contribution of US$ 39,988 to the UNEP Trust Fund. The Office responded to the Permanent Representative of Belgium on 23 February 1999, indicating that a search of its deposit records did not reveal the US$ 39,988 deposit, and it requested exact details of the deposit and/or a copy of the deposit record indicating the date, account number and amount. On 7 April 1999, the Permanent Representative of Belgium communicated to the United Nations Office at Nairobi that the Belgian Ministry for Environment had deposited the contribution into the UNEP account. It should be noted that the account number quoted in this communication was not the account number actually used in the instructions. The bordereau de liquidation et d'ordonnancement dated 16 February 1998 and the ordonnance de dépense dated 19 February 1998 from the Ministerie van Sociale Zaken both indicated account number *000*-1-XXXXXX rather than *001*-1-XXXXXX. The Investigations Service, did, however, note that the correct account number, *001*-1-XXXXXX, had been used in other internal documents, such as the Royal Order signed by the King of Belgium on 22 December 1997, which authorized the 1997 contribution of Belgium to the trust fund for the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, and one signed on 19 November 1998, which authorized the 1998 contribution of Belgium to the trust fund for the Montreal Protocol.

28. Even after the cause of this misdirected contribution had been identified to Chase by the United Nations Office at Nairobi on 11 June 1999, additional Member State contributions were misdirected. In a letter dated 16 June 1999, the Ministry of the Environment of Finland instructed its finance section to make a payment of EUR 5,000 to the UNEP Trust Fund account but cited number *001*-XXXXXX rather than *001-1*-XXXXXX.

29. In response to a reminder notice dated 13 October 1999 from the United Nations Office at Nairobi regarding the outstanding Finnish contribution, the Finnish Ministry of the Environment communicated on 29 November 1999 to the Office that it had paid the contribution on 21 June 1999 to account number *001*-XXXXXX. The United Nations Office at Nairobi responded on 17 December 1999 that the correct account number, as quoted in the invoice to the Government of Finland, was *001-1*-XXXXXX, and not *001*-XXXXXX, as had been noted in its fax and in the copy of the bank transfer information which had been remitted by the Finnish Ministry.

30. The payment/transfer form dated 20 August 1998 in the amount of US$ 112 from the Government of Dominica to the Eastern Caribbean Central Bank for payment of its 1998 contribution to the Convention on Biological Diversity specifies account number *001-1*-XXXXXX. The Bank, as remitter for the Government of Dominica, instructed its correspondent bank, The Federal Reserve Bank of New York, to transfer the funds to account number *001*-XXXXXX at Chase. The Member State had provided the correct information but its remitting bank had forwarded an incorrect account number.

31. Even after 10 September 1999, by which date Chase had determined that deposits had been misdirected into the Rouse-Madakor account, additional contributions by Member States continued to

be credited by Chase to the Rouse-Madakor account. The décision d'attribution de subvention No. 18/99 dated 21 September 1999 for the French contribution of FF 100,000 to the Convention on Biological Diversity noted that payment should be made to the UNEP Trust Fund account *00*-1-XXXXXX. This was followed up by a letter dated 26 October 1999 to the Secretary-General from the Embassy of France in the United States of America that a contribution of FF 100,000 had been made on 25 October 1999 to UNEP Trust Fund account *00*-1-XXXXXX.

D. Explanation of Chase as to why the misdirection of deposits occurred

32. According to Chase, its funds transfer system is governed by the United States Uniform Commercial Code, article 4-A-207(2)(a). This law provides only that a beneficiary's bank *may* rely on an incoming account number to credit funds transferred to the numbered account identified, without matching the transfer to the account name. In response to a question raised by the concerned Member States, Chase reported that its funds transfer systems are automated to recognize an incoming account number and automatically credit the amount to that account, without reference to the name of the account. According to Chase, it is only when there is no valid account number at Chase that the transfer system rejects it and the deposit is then handled manually by an operator. Chase asserted that there is no cost-effective or technically feasible way to change the funds transfer clearing system to match account numbers to account titles. It noted that such changes would significantly affect clearing times and negatively affect the service that Chase provides to the United Nations and other customers.[1]

33. In connection with the investigation into the misdirection of the UNEP contributions, Chase reported to the United Nations Treasurer that, during the period when the 13 contributions were misdirected into the Rouse-Madakor account (February 1998–October 1999), it had received 38 other transfers to the UNEP account which also bore erroneous account numbers. These transfers, however, indicated Chase accounts that did not exist; as a result, the system rejected the deposits, thereby requiring manual intervention at Chase in order to effect the transaction. In these cases, bank personnel made inquiries as to the intended beneficiary and the intended account before they made the necessary manual adjustments to ensure that the transfers were credited to the intended beneficiary, the UNEP Trust Fund. As discussed below, this explanation does not account for all the problems identified during the investigation.

34. In September 1999, after Chase had identified that the Italian contribution had been misdirected into the Rouse-Madakor account, two additional transfers, from Namibia and France and totalling US$ 17,393, were also misdirected into the Rouse-Madakor account. When presented with this, Chase responded to the United Nations Treasurer that the fact that one incoming transfer had been identified as having been miscredited to the Rouse-Madakor account would not, in and of itself, give Chase grounds to block subsequent transfers to the account and, without such a block, no subsequent transfers that were automatically processed to the account could have been prevented. Chase claimed that it had no reason to expect that any subsequent transfer bearing that account number would also prove to be erroneous. Chase made this claim despite the fact that the United Nations Office at Nairobi previously had informed it of the missing deposits from Belgium and Uruguay.

35. In addition, there were misdeposits which, even under the Chase transfer system, should have been prevented. The three misdirected Belgian contributions differ from the others in that the account number used by the Belgian Government contained an extra zero (i.e., *000*-1-XXXXXX). This number is not the same as the Rouse-Madakor account number, *001*-XXXXXX. Nevertheless, the contributions were deposited into her account. Chase was asked how it was possible, if only numbers were recognized by its system, that funds directed to account number *000*-1-XXXXXX were instead credited to account number *001*-XXXXXX. In its response, Chase provided new information: its funds transfer system automatically adds or drops extraneous leading zeros to fit the number in its account system. Accordingly, the initial "*0*" digit in *000*-1-XXXXXX was dropped by the Chase system, thereby resulting in an account number, *00*-1-XXXXXX, which was the Rouse-Madakor account number, to which the three contributions were deposited.

36. The response of Chase does not, however, explain 2 of the 38 erroneous transfers which had required manual intervention. These 2 transfers were directed by the contributing Member State to account number

0001-1-XXXXXX which bears an extra leading digit "*0*" to that of the correct UNEP account number, *001*-1-XXXXXX. In accordance with the explanation provided by Chase, the leading zero should have been dropped by its system and the funds deposited to the UNEP account. Instead, both transfers were rejected by the system and required manual intervention. If this process had been followed in the case of the Belgian deposit, it too would have required manual intervention.

37. Chase was requested to explain why the two erroneous transfers required manual intervention which resulted in correct deposits, when the Belgian deposits did not. In a letter dated 14 March 2000 addressed to the Investigations Section, Chase asserted that, in the other two cases, the account number field had contained two dashes ("-"), but those from Belgium had not.

38. The response provided by Chase does not appear to explain the discrepancies in its handling of these funds. The Belgian transfers with the extra "*0*" (*000*-1-XXXXXX), the two erroneous transfers which required manual intervention (*0001*-1-XXXXXX) and the UNEP Trust Fund account (*001*-1-XXXXXX) all contain two dashes in the account numbers, while the Rouse-Madakor account number (*001*-XXXXXX) has one dash. Nevertheless, the three Belgian transfers were deposited by Chase into the Rouse-Madakor account.

E. Documents provided by the Government of Turkey

39. The explanation provided by Chase that its funds transfer system cannot match the account name as well as the account number is not supported by the documents provided by the Government of Turkey.

40. On 25 May 1999, the Government of Turkey directed three contributions, of US$ 33,118, US$ 35,184 and US$ 13,632 to the UNEP Trust Fund account. The first two contributions were to be deposited to account number *001*-XXXXXX, while the third was to be deposited to account number *001-1*-XXXXXX. Chase advised the Turkish transmitting bank that it was unable to execute the payment of US$ 35,184 because the beneficiary's account number (*001*-XXXXXX) and name (UNEP) did not agree. They requested that the Turkish transmitting bank provide the correct account number, which the Turkish transmitting bank did, and the US$ 35,184 was correctly deposited into the UNEP account number *001-1*-XXXXXX.

41. The same did not hold true for the US$ 33,118 contribution. While this contribution also had been directed to the *001*-XXXXXX account number, the Chase system did not reject the transfer because the account name and number did not match but, instead, the contribution was automatically deposited into the Rouse-Madakor account.

42. In a letter dated 3 April 2000 to the Investigations Section, Chase explained that, on the date that it received the Turkish Government's instructions to effect the two deposits, 26 May 1999, there was a temporary computer malfunction in the link between funds transfer system of Chase and the retail accounting system, which resulted in the US$ 35,184 payment being rejected by the system. At that point, a manual operator intervened in order to identify the party to be credited. When the manual operator noted the discrepancy between the account number and account name, the remitting bank, the Central Bank of Turkey, was contacted for clarification of the correct beneficiary. Based on its reply, the UNEP Trust Fund account was credited with the funds. Chase added that the only reason the US$ 35,184 payment was rejected by the system was the temporary computer malfunction that was ongoing when the payment entered the Chase funds transfer system. Had this payment entered the system when the link between the funds transfer and retail accounting systems was in normal operation, the funds, as in the case of the US$ 33,118 contribution, would have automatically been processed and deposited into the Rouse-Madakor account.

IV. Subsequent events

43. Once Chase had determined in September 1999 that the Italian contribution had been credited to the Rouse-Madakor account, Chase representatives contacted Ms. Rouse-Madakor to request her authorization to debit her account for the misdirected contribution. Ms. Rouse-Madakor refused to return the funds erroneously deposited into her account. By that time, Ms. Rouse-Madakor had spent more than US$ 200,000 of the misdirected funds.

44. The United Nations requested Chase to debit the erroneous account and to credit the intended account, the UNEP Trust Fund account. Since Ms. Rouse-Madakor refused to return the funds, Chase was unable to comply with the United Nations request and resorted to freezing the Rouse-Madakor account early in November 1999 in order to prevent further loss of United Nations funds. In December 1999, Ms. Rouse-Madakor sued Chase, seeking a release of the funds in her account, which she claimed were hers. Chase, by way of counterclaim, has asserted claims against Ms. Rouse-Madakor in the nature of indemnity and contribution, and has also sought a declaration as to the ownership of the funds in question. The case is currently pending in New York State Supreme Court.

45. Several meetings and discussions were held with Chase by the United Nations Treasurer and representatives of the Office of Legal Affairs and the Office of Internal Oversight Services. Pursuant to requests made by the United Nations at those meetings for the restoration of the misdirected funds, Chase, on 4 February 2000, informed the United Nations Treasurer that it had credited to the UNEP Trust Fund account the sum of US$ 470,121.57, the equivalent of the sum being held by Chase in the Rouse-Madakor account pending final resolution of the action before the New York State Supreme Court. The Organization, however, continued to press Chase for the restoration of the full amount.

46. On 8 March 2000, Ms. Rouse-Madakor was arrested and charged with bank fraud, filing false statements and bank larceny by the Office of the United States Attorney in Manhattan. That criminal case is pending.

47. Following a final meeting on 1 May 2000 with the United Nations Treasurer and representatives of the Office of Legal Affairs and the Office of Internal Oversight Services, Chase restored the balance of the misdirected funds (US$ 231,877.37) to the UNEP Trust Fund account on 3 May and has promised to engage with United Nations staff in the development of ways to prevent problems.

48. The Audit and Management Consulting Division of the Office of Internal Oversight Services has included in its audit plan for 2000 a horizontal audit of the policies and procedures observed by major United Nations offices, funds and programmes for the receipt, accounting and control of both assessed and voluntary contributions. Taking into account the findings of the Investigations Section in the present report, this audit will include a review of, among other areas, United Nations Treasury arrangements to monitor the performance and adequacy of information provided by Chase and any other bank to which such contributions are or may be remitted. Where appropriate, audit recommendations will be issued to strengthen the adequacy and effectiveness of internal controls in ensuring that contributions are properly managed, accounted for, and protected against loss through carelessness, fraud or other irregularities.

V. Corrective measures proposed by Chase

49. Given the high volume of error, and following discussions with United Nations staff, Chase proposed to the United Nations Treasurer that the UNEP Trust Fund account, and other accounts held in the name of UNEP, be closed and that new accounts be opened with a unique three-digit prefix that does not begin with zero and which would be for the exclusive use of the United Nations. While such a change does not ensure that errors in transmitting instructions will not occur, the unique United Nations prefix may prevent money from being deposited into a non-United Nations account, provided the initial three-digit prefix is correct.

50. In response to these developments and requests from the United Nations Office at Nairobi and the United Nations Treasurer for assistance in avoiding such problems in the future, Chase has proposed the following:

(a) Utilization of existing test-key arrangements for all communications from all Nairobi-based United Nations offices, including messages not related to the transfer of funds. This would ensure that United Nations offices are alerted whenever a communication has not arrived at Chase because a missing sequence number would alert Chase to a communication that has not been received;

(b) Examination of the feasibility of arranging a secure and reliable communication facility between the United Nations Office at Nairobi and Chase by having a Chase e-mail address on the United Nations internal e-mail system;

(c) An arrangement whereby the United Nations Office at Nairobi would provide Chase with comprehensive, detailed information on any outstanding contributions for the period 1998-2000 which Member States have indicated that they have paid to accounts at Chase but for which the United Nations Office at Nairobi has been unable to account;[2]

(d) Establishment of a bi-weekly conference call between officers of the United Nations Office at Nairobi and Chase to discuss service, including any unresolved customer service issues;

(e) Establishment of a management escalation process of the United Nations at Nairobi and Chase to address any potential inquiries which remain outstanding. This would include telephone calls from the United Nations Office at Nairobi to Chase, alerting it of particularly significant issues;

(f) Examination of the feasibility and potential benefit of establishing a CHIPS UID (universal identifier) number which could be used as an identifier for United States dollar CHIPS and Fedwire funds transfer credits to the United Nations accounts at Chase;

(g) Arrangement of a meeting between key officers of the Financial Resources Management Service and Budget and Funds Management Service at the United Nations Office at Nairobi and of Chase to discuss implementation of the above-mentioned proposals.

51. Chase contends that there are telecommunications difficulties between the United States of America and Kenya which have made it very challenging for Chase to communicate to the United Nations Office at Nairobi in a timely manner. It has stated that fax messages both to and from Nairobi frequently do not arrive owing to the apparent telecommunications problems in Kenya. (That is not, however, the experience of the Office of Internal Oversight Services in more than four years of communication by fax between its offices in Kenya and the United States.) In order to better track communications from the United Nations Office at Nairobi, the Banking Agency Manager of Chase International has suggested that all correspondence from the Nairobi-based organizations be directed to his attention. He will then direct the correspondence to the appropriate staff member in his group or to other Chase departments, and follow up to ensure the timely and satisfactory resolution of all issues.

VI. Conclusions

52. If Ms. Rouse-Madakor had not engaged in apparently criminal acts but had returned the funds deposited in error to her account instead of spending and trying to keep the UNEP funds, this matter would most likely have not been presented to the Office of Internal Oversight Services. It is evident, however, that there are system deficiencies which this case has revealed. Based upon the documentation provided by the Member States, Chase, the United Nations Office at Nairobi and the Eastern Caribbean Central Bank, it appears that the contributions were misdirected in error. Funds transfer instructions unintentionally did not contain the fourth digit "1" of the UNEP Trust Fund account number.

53. The Chase system based the deposits only on the account number and ignored the name of the intended beneficiary, UNEP, which also was included in the transfer instructions. Since the account number in the 13 misdirected transfers was attached to an active account at Chase, the transfers were automatically credited to the Rouse-Madakor account instead of the intended beneficiary of these transfers, the UNEP Trust Fund.

54. The extent of the misdirected funds could have been minimized and corrective action taken at a much earlier stage had the United Nations Office at Nairobi and Chase acted in a more prompt and efficient manner upon initially being made aware of certain indications that contributions meant for the UNEP Trust Fund account were being misdirected. More specific findings are set forth below.

A. United Nations Office at Nairobi

55. Although by far the majority of the approximately US$ 300 million in contributions received by the United Nations Office at Nairobi were properly credited, a review of the correspondence of the Office indicates mistakes and a lack of sufficient care on the part of its staff in conducting their work in these cases. This is evidenced by the Office:

(a) Not noticing that the account number reported in the two letters from the Italian Embassy in Nairobi was *001*-XXXXXX rather than *001-1*-XXXXXX, the correct UNEP Trust Fund account number;

(b) Sending, in December 1999, the reminder notice and invoice of the outstanding contribution to the Italian Government despite the numerous communications on the missing Italian contribution;

(c) Incorrectly citing in the handwritten note from a staff member on the February fax from the Uruguayan Mission that "Uruguay to BY $6,802 10 Feb 98 a/c *001-1*-XXXXXX" although the account number noted is not that reported on the fax;

(d) Not considering the possibility that the other missing deposits which had been reported to it by Member States could have been misdirected as well, even though it had learned that the Uruguayan contribution had been made to account number 001-XXXXXX, as noted in the fax of the Office dated 11 June 1999 to Chase.

56. The communications from the United Nations Office at Nairobi also reveal a lack of response on a timely basis. This is evidenced by the Office:

(a) Not having notified Chase until February 1999 of the missing Italian contribution which had been reported to the Office in September 1998;

(b) Not having requested the assistance of Chase in identifying the missing deposits reported in February 1999 by Uruguay and Belgium until June 1999.

57. As evidenced by the following, actions on the part of the staff at the United Nations Office at Nairobi who handle financial contributions indicate a lack of familiarity with banking requirements:

(a) The documents that were provided by the United Nations Office at Nairobi to Chase regarding the Italian contribution contained little information as to the transfer: one was the instruction for the purchase of United States dollars for the contribution, which provided no deposit instructions, and the other appears to be the transfer instructions from the Italian Ministry of the Environment to the Ufficio Italiano dei Cambi. The copy of this document held by the Office is, however, of poor quality and not legible. While the deposit instructions may have been on the document, they are not apparent. The Office, in order to have been able to assist Chase in its search for the missing deposit, should have requested that the Italian Government provide a clearer copy; this document may have contained the requisite information required by Chase to conduct its search. If the Office had provided either of the 1998 letters sent by the Italian Government to Chase, the error could have been detected almost a year earlier;

(b) The staff at the United Nations Office at Nairobi were unfamiliar with the banking protocol which requires the remitting bank to initiate the investigation into a deposit until the United Nations Treasurer informed them of that fact in an email message in July 1999.

B. Chase

58. A review of the correspondence between Chase and its customer, the United Nations Office at Nairobi, revealed that Chase did not respond promptly to inquiries and requests from the Office, and failed to advise the Office clearly of what was needed by Chase to track the misdirected funds:

(a) Chase became aware in February 1999 that there was at least one substantial missing contribution but did not examine the possible reasons for or likely routes of the missing contribution. Subsequently, in a fax dated 11 June 1999, the United Nations Office at Nairobi had informed Chase that the Uruguayan contribution had been deposited to account number 001-XXXXXX and explained that this was an erroneous account number owing to the omission of the fourth digit number "1". Chase did not respond to this crucial fax. The United Nations Office at Nairobi had identified the source of the problem, reported it to Chase but Chase took no action upon receipt of the fax from the Office. As noted in paragraph 26 above, Chase has asserted to the Investigations Service that it did not receive that fax;

(b) In a fax dated 8 June 1999, the United Nations Office at Nairobi advised Chase that it required its assistance in locating funds which had been transferred by donors and required more detailed assistance than the response provided by Chase which simply indicated that the amount was not in the accounts. There was no response to this fax until 7 September 1999, despite three requests for a response, dated 14 July, 29 July and 17 August 1999.

59. The Chase system of deposits by wire transfer, made by account number only without reference to the name of the account holder, was exacerbated by the assignment by Chase of a non-exclusive number, beginning with *001*, to the United Nations. Chase has

indicated to the Organization that it is in the process of identifying a unique prefix for all United Nations accounts.

60. The explanations of Chase for the various ways that the contributions were handled seem to indicate additional deficiencies in its system.

VII. Recommendations

Recommendation 1

When Italy and, subsequently, Belgium and Uruguay contacted the United Nations Office at Nairobi to advise that they had made contributions which, according to the records of the Office had not been credited to the UNEP account, the staff of the Office did not pay adequate attention on a timely basis to the queries raised by the Member States. The Office of Internal Oversight Services recommends that the United Nations Office at Nairobi establish a focal point for Member States to contact when they have questions regarding their contributions. Those questions will then be researched and a report made to the concerned Member State in a careful and timely manner. (IV99/202/01)*

Recommendation 2

During discussions with the staff of the United Nations Office at Nairobi, it was noted that the Contributions Unit of the Budget and Funds Management Service is not staffed at a level that would enable it to provide the necessary support required to control more than 90 UNEP trust funds and the tracking of US$ 300 million in contributions. The Office of Internal Oversight Services recommends that the United Nations Office at Nairobi determine the proper level and allocation of staffing necessary to carry out this function. (IV99/202/02)*

Recommendation 3

One of the contributing factors to the inability of the United Nations Office at Nairobi to identify the misdirected contributions or determine when they occurred was the lack of communication with Member States at the time that the contributions were made. The Office of Internal Oversight Services recommends that the Office evaluate and establish a procedure by which Member States are provided in writing, on a regular basis, with a status report on their contributions, including both amounts paid and amounts outstanding. This will provide Member States with the opportunity to review the status of their contributions and subsequently advise the proposed focal point at the United Nations Office at Nairobi if any contribution has not been properly credited. For example, one possibility is to place extract reports from the contributions database on the Intranet at UNEP/United Nations Office at Nairobi and to provide secure access to relevant parts of the database to focal points nominated by the donor countries. (IV99/202/03)*

Recommendation 4

In order to better assure both contributing Member States and the Organization that contributions intended for the Organization are credited to the proper United Nations bank accounts, the Office of Internal Oversight Services recommends that the United Nations Treasurer require Chase to develop and implement a system with the facility to match an account name or special prefix to the account number, thereby minimizing the risk of a similar occurrence of misdirected contributions to the UNEP Trust Fund account and to the other bank accounts held by the Organization at Chase. (IV99/202/04)*

Recommendation 5

The staff at the United Nations Office at Nairobi and Chase personnel both complained to the Investigations Service of the inadequate communication between the two parties, which ultimately brought about a breakdown in communications between the two and a feeling of mistrust. The Office of Internal Oversight Services recommends that Chase personnel and the concerned staff at the United Nations Office at Nairobi meet with the United Nations Treasurer to discuss how to improve communications and the ways in which Chase can improve its client service relationship, thus engendering trust between the United Nations Office at Nairobi and Chase. (IV99/202/05)*

Recommendation 6

The Office of Internal Oversight Services recommends that the appropriate finance staff at the United Nations Office at Nairobi and Chase personnel,

* An internal code used by the Office of Internal Oversight Services.

together with the United Nations Treasurer, meet in New York to discuss the feasibility of implementing the recommendations of the United Nations and Chase on ways in which the current system can be improved, to hold an exchange of views on their respective responsibilities, and for the United Nations Office at Nairobi to make suggestions to Chase that would enable it to better address the needs of the Office. (IV99/202/06)*

Recommendation 7

The Office of Internal Oversight Services recommends that the Department of Management review this case and formulate procedures to ensure that all contributions from Member States are promptly acknowledged and that Member States are provided with a periodic statement on the status of their contributions. In addition, the Department of Management should take steps, such as training staff who work in the contributions area, to ensure that the lessons learned from the experience with the UNEP Trust Fund account are applied to other contributions areas with the aim of improving operations. (IV99/202/07)*

The United Nations Office at Nairobi and the Department of Management have accepted the report's findings and recommendations. The United Nations Office at Nairobi has agreed to notify the Member States of its efforts to achieve full compliance with the recommendations. In September 2000, the Office of Internal Oversight Services will evaluate the compliance of the United Nations Office at Nairobi and advise Member States accordingly.

(*Signed*) Dileep **Nair**
Under-Secretary-General
for Internal Oversight Services

Notes

[1] The Office of Internal Oversight Services notes, however, that at least one major clearing bank has a funds transfer system which, on a selective basis, matches the account number with the account title before crediting accounts with incoming funds.

[2] The United Nations Office at Nairobi has informed the Office of Internal Oversight Services that there are no other missing contributions.

Annex

Payments misdirected into the Rouse-Madakor bank account

Date	*Donor*	*Amount (United States dollars)*
12 February 1998	Uruguay	6 802.00
9 March 1998	Belgium	3 618.00
9 March 1998	Belgium	35 519.00
9 March 1998	Belgium	39 938.00
8 April 1998	Italy	191 671.00
25 June 1998	France	170 336.00
29 July 1998	Saint Kitts and Nevis	10 000.00
25 August 1998	Dominica	112.00
27 May 1999	Turkey	33 118.00
9 June 1999	Italy	188 339.00
23 June 1999	Finland	5 152.50
12 October 1999	Namibia	1 000.00
21 October 1999	France	16 393.44